

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-08 NSC-05
SS-15 STR-07 OMB-01 CEA-01 L-03 CIAE-00 COME-00
FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 H-02 PA-02 SOE-02 DOE-15 EUR-12 (ISO) W
-----020288 291016Z /10

P 290851Z MAR 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 6564
TREASURY/DEP WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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USEEC

USOECN ALSO FOR EMBASSY

E.O. 11652: N/A/
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - MARCH 23-
29

1. SUMMARY: THE YEN APPRECIATES TO, AND THEN BEYOND, THE
225 TO THE DOLLAR LEVEL, AND CONSIDERATION OF (AND SPECULA-
TION ABOUT) COUNTERMEASURES ACCELERATES. A 7 POINT
PROGRAM, ANNOUNCED OVER THE WEEKEND AND BILLED AS DESIGNED
TO ENSURE ACHIEVEMENT OF 7 PERCENT REAL GROWTH IN FY 78
AND EXTERNAL EQUILIBRIUM IN THE LONG-RUN, HAS LITTLE
EFFECT ON THE MARKET. DEPARTMENT STORE SALES REMAIN
ALMOST UNCHANGED IN FEB. INTEREST RATES ARE REDUCED IN
KEEPING WITH MARCH 15 DISCOUNT RATE CUT. BANK OF JAPAN
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(BOJ) CREDIT CEILINGS FOR SECOND QUARTER CY 78 REFLECT
EXPECTATION OF NO MAJOR CHANGES IN PRIVATE DEMAND FOR
FUNDS IN THE QUARTER AHEAD. FOREIGN ISSUES OF YEN BONDS
IN JUNE EXPECTED TO REACH \$450 MIL LEVEL FOR THIRD
STRAIGHT MONTH. END SUMMARY.

2. THE YEN CONTINUED ITS SURGE AGAIN THIS PAST WEEK,

RISING FROM YEN 230 TO THE DOLLAR AT THE CLOSE ON MONDAY MARCH 20, TO HIT THE 225 MARK ON TUESDAY MARCH 28 AND RISING FURTHER TO 222.50 IN MORNING TRADING HERE TODAY, WED MARCH 29. ALTHOUGH AT TIMES OVER THE PAST WEEK (INCLUDING THIS MORNING) THE BOJ HAS BEEN PORTRAYED BY THE MARKET AS GIVING UP ON EFFORTS TO HOLD THE RATE AT ONE LEVEL OR ANOTHER, THE BOJ YESTERDAY REPORTEDLY BOUGHT THE BULK (AN ESTIMATED \$800 MIL APPROXIMATELY) OF THE DAY'S TURNOVER IN THE INTERBANK MARKET (A REPORTED \$1,063 MIL), ABSORBING WHAT MARKET COMMENTATORS CALLED A "DELUGE OF UNWANTED DOLLARS." YESTERDAY'S TURNOVER APPROACHED THE PREVIOUS DAILY HIGH OF \$ 1 1/4 BIL IN AUGUST 1971. NO SINGLE GENERAL EXPLANATION OF THE LATEST APPRECIATION OF THE YEN HAS BEEN DOMINANT, WITH FACTORS CITED INCLUDING FRB CHAIRMAN MILLER'S REPORTED SUPPORT FOR FOCUSING ATTENTION ON FUNDAMENTALS RATHER THAN ON SHORT-TERM BRIDGING ACTIONS AND THE MARKET'S DISBELIEF THAT THE BOJ CAN LONG HOLD OUT AGAINST SPECULATIVE ATTACKS.

3. AMONG THE MORE SPECIFIC OF THE MANY REACTIONS TO CONTINUED YEN APPRECIATION WAS A WARNING REPORTEDLY ISSUED BY THE FINANCE MINISTRY MONDAY MARCH 27 TO JAPAN'S MAJOR SECURITIES COMPANIES TO REFRAIN FROM SELLING BONDS AGGRESSIVELY TO FOREIGN CUSTOMERS. A MINISTRY SPOKESMAN DENIED THAT THERE HAD BEEN ILLEGALITIES OR EXCESSES ON THE PART OF SECURITIES HOUSES TO PROVOKE THE WARNING, HOWEVER. UNCLASSIFIED

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OTHER PLANS RUMORED TO BE UNDER CONSIDERATION INCLUDE FURTHER INCREASES IN OFFICIAL FOREIGN EXCHANGE DEPOSITS WITH COMMERCIAL BANKS, A SECOND OFFICIAL FOREIGN EXCHANGE FUND WHICH WOULD BE USED FOR SOME TYPES OF IMPORT FINANCING AND ANOTHER \$1 BIL EMERGENCY IMPORT PROGRAM. THESE RUMORS CIRCULATE AGAINST THE BACKGROUND OF INCREASING CONCERN ABOUT THE RISE IN JAPANESE OFFICIAL FOREIGN EXCHANGE RESERVES, WITH SPECULATION BEING THAT RESERVES AT THE END OF MARCH WILL APPROACH THE \$30 BIL LEVEL. FINANCE MINISTER MURAYAMA ON FRIDAY MARCH 24 TOLD THE DIET THAT THE MOF HAS NO INTENTION OF TAKING ADDITIONAL MEASURES TO TIGHTEN FOREIGN EXCHANGE CONTROLS, SUCH AS REQUIRING NEGATIVE INTEREST RATES ON YEN DEPOSITS OR IMPOSING RESTRICTIONS ON ALL FOREIGN BOND PURCHASES. ONE OF THE LATEST RUMORS IS THAT FEAR OF INFLATION IS INHIBITING, OR WILL INHIBIT, BOJ FOREX MARKET INTERVENTION. THE BOJ HAS SOUGHT TO DEFUSE THESE CONCERNS, GIVEN PRESENT DOMESTIC ECONOMIC TRENDS. IT DOES APPEAR THAT RELATIVELY EASY LIQUIDITY CONDITIONS HAVE SPARKED INTEREST IN THE STOCK MARKET.

4. SINCE INITIAL PRESS COVERAGE, THE GOJ 7-POINT PROGRAM

ANNOUNCED BY THE ECONOMIC CABINET MARCH 25 HAS RECEIVED LITTLE COVERAGE AND APPARENTLY HAD LITTLE EFFECT ON THE EXCHANGE MARKET. THE PROGRAM, BILLED AS ENSURING ACHIEVEMENT OF 7 PERCENT REAL GROWTH IN FY 78 AND EXTERNAL EQUILIBRIUM IN THE LONG RUN, INCLUDED: (1) PROMOTION OF PUBLIC WORKS, (2) REDUCTIONS IN INTEREST RATES, (3) ENCOURAGEMENT OF PRIVATE INVESTMENT, (4) EMPLOYMENT MEASURES, (5) RELIEF OF STRUCTURAL RECESSION INDUSTRIES, (6) ASSISTANCE TO SMALL BUSINESS, AND (7) EXTERNAL ECONOMIC MEASURES. IN ADDITION TO THESE MEASURES, DESCRIBED IN AN ECONOMIC PLANNING AGENCY PRESS RELEASE,

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INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 EB-08
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FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 L-03 H-02 PA-02 DOE-15 SOE-02 (ISO) W
-----020286 291016Z /10

P 290851Z MAR 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 6565
TREASURY/DEP WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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PRESS REPORTS SUGGEST THAT THE MINISTERIAL COUNCIL DECIDED (1) TO RESTRAIN THE VOLUME OF EXPORTS IN FY 78 TO THE LEVELS OF FY 77, (2) AT THE STRAUSS-USHIBA AND SCHULTZE-MIYAZAWA MEETINGS IN APRIL, TO URGE THE U.S. TO GREATER EFFORTS TO DEFEND THE DOLLAR, AND (3) IF NECESSARY TO EXERCISE FLEXIBILITY IN FISCAL POLICY, FOR EXAMPLE, BY UTILIZING BUDGET RESERVES OR EXPANDING FISCAL LOAN AND INVESTMENT PROGRAM (FLIP) OUTLAYS (TOKYO 04923). SUBSEQUENTLY, ON MONDAY, MARCH 27, IT WAS REPORTED THAT MITI MINISTER KOMOTO TOLD THE DIET THAT, IF EXPORT VOLUME IN FY 78 WERE HELD TO THE FY 77 LEVEL, THIS WOULD IMPLY AN 8 PERCENT INCREASE IN THE DOLLAR VALUE OF JAPANESE EXPORTS. MITI OFFICIALS LATER WERE QUOTED AS UNDERLINING THAT THE

MINISTER'S STATEMENT ASSUMED STABLE EXCHANGE RATES.

5. DEPARTMENT STORE SALES, S.A., REMAINED VIRTUALLY UN-
CHANGED IN FEB (DOWN 0.1 PERCENT) FROM THE PRIOR MONTH
AFTER THE RAPID GAINS IN THE PRECEDING TWO MONTHS. ON
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YEAR-OVER-YEAR COMPARISON, DEPARTMENT STORE SALES HAVE
BEEN SHOWING SOME PICK-UP RECENTLY, WHILE SALES OF SELF-
SERVICE-TYPE STORES HAVE CONTINUED THE LESS EBULLIENT
PATTERN EVIDENT SINCE LAST FALL.

TABLE 1: DEPARTMENT STORE SALES, S.A. (1975 EQUALS 100;
PCT CHANGE FROM PRIOR MONTH IN PAREN)

1977:	1977:
JAN 114.5 (5.9)	AUG 115.1 (12.3)
FEB 113.0 (-2.2)	SEP 116.6 (1.3)
MAR 112.4 (-0.5)	OCT 118.3 (1.5)
APR 114.6 (2.0)	NOV 114.1 (-3.6)
MAY 115.3 (0.6)	DEC 116.8 (2.4)
JUNE 111.8 (-3.0)	1978:
-	JAN 120.3 (3.0)
-	FEB 120.2 (-0.1)

TABLE 2: SALES OF DEPARTMENT STORES AND LARGE-SCALE SELF-
SERVICE STORES, N.S.A. (IN BIL YEN; PCT CHANGE FROM YEAR
EARLIER IN PAREN)

- DEPARTMENT STORES SELF-SERVICE STORES

1977:DEC	815.7 (6.0)	530.8 (14.3)
1978:JAN	363.5 (4.2)	351.7 (14.6)
FEB	342.9 (6.4)	307.0 (12.4)

(NOTE THAT BASE YEAR FOR THE INDEX OF DEPARTMENT STORE
SALES HAS BEEN CHANGED FROM 1970 TO 1975, STARTING WITH
FEB 78 INDEX.) - TARTNG WITH

6. FOLLOWING THE 0.75 PERCENTAGE POINT CUT IN THE OFFICIAL
DISCOUNT RATE, EFFECTIVE MARCH 16, THE BOJ POLICY BOARD
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ANNOUNCED MARCH 22 THAT BANK SAVING RATES WOULD BE
DECREASED BY UP TO 0.75 PERCENTAGE POINTS,
EFFECTIVE APRIL 17. INTEREST RATES ON ONE-YEAR BANK TIME
DEPOSITS ARE TO BE REDUCED FROM CURRENT 5.25 PERCENT TO

4.5 PERCENT PER ANNUM. RATE ON ORDINARY BANK DEPOSITS
WILL BE LOWERED BY 0.5 PERCENTAGE POINTS TO 1.0 PERCENT.
A CUT IN POSTAL SAVING RATES HAS NOT YET BEEN ANNOUNCED,
BUT IT IS WIDELY BELIEVED THAT AN IDENTICAL MAGNITUDE CUT
WILL BE ANNOUNCED SHORTLY. IN OTHER ACTIONS
COMMERCIAL BANKS HAVE LOWERED THEIR SHORT-TERM PRIME LEND-
ING RATE BY 0.75 PERCENTAGE POINTS TO 3.75 PERCENT PER
ANNUM, EFFECTIVE MARCH 20. SECURITIES FIRMS, COMMERCIAL
BANKS, AND THE MONETARY AUTHORITIES AGREED MARCH 24 UPON
CUTS IN OTHER LONG-TERM RATES. LONG-TERM PRIME LENDING
RATE HAS BEEN LOWERED BY 0.5 PERCENTAGE POINTS TO 7.1
PERCENT, EFFECTIVE MARCH 27. THE YIELD TO SUBSCRIBERS ON
TEN-YEAR GOVT BONDS IS TO BE LOWERED BY 0.503
PERCENTAGE POINTS TO 6.180 PERCENT, EFFECTIVE WITH APRIL
ISSUES, AND THE ANNUAL YIELD ON INTEREST-BEARING
FIVE-YEAR BANK DEBENTURES WILL BE REDUCED BY 0.5 PERCENTAGE
POINTS TO 6.2 PERCENT, EFFECTIVE WITH APRIL ISSUES. FOR
INDUSTRIAL BOND YIELDS, A SMALLER MAGNITUDE CUT OF 0.2
TO 0.3 PERCENTAGE POINTS IS EXPECTED, SINCE INDUSTRIAL
BOND YIELDS HAVE ALREADY BEEN REDUCED BY 0.2 PERCENTAGE
POINTS, EFFECTIVE WITH FEB 78 ISSUES. HOUSING LOAN RATES
(PROVIDED BY COMMERCIAL BANKS) ARE SCHEDULED TO BE LOWERED
BY 0.3 PERCENTAGE POINTS TO 7.62 PERCENT PER ANNUM EFFEC-
TIVE MID-APRIL.

7. ON MARCH 28, THE BOJ FIXED CREDIT EXPANSION LIMITS ON
THE INCREASE IN LOANS BY THE 13 CITY BANKS DURING THE
COMING APRIL-JUNE QUARTER AT 1,052 BIL YEN, UP 12.9 PER-
CENT OVER THE ACTUAL INCREASE IN THE SAME QUARTER A YEAR

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FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06 LAB-04
SIL-01 L-03 H-02 PA-02 SOE-02 DOE-15 (ISO) W
-----020279 291015Z /10

P 290851Z MAR 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 6566
TREASURY/DEP WASHDC PRIORITY
INFO AMEMBASSY BONN
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EARLIER. THIS WILL MARK THE FIRST QUARTER IN TWO YEARS FOR WHICH THE CREDIT INCREASE IS EXPECTED TO BE OF DOUBLE-DIGIT MATNITUDES. THE BOJ, HOWEVER, ATTRIBUTES THE RAPID INCREASE IN THE APRIL-JUNE QUARTER PRIMARILY TO THE UNUSUALLY SLOW INCREASE IN CREDITS A YEAR AGO. THE BOJ PREDICTS NO MAJOR CHANGES FROM THE FIRST QUARTER IN PRIVATE DEMAND FOR FUNDS. EMBASSY'S ESTIMATE OF CREDIT EXPANSION THROUGH END OF JUNE 1978, USING THE QUARTERLY LIMITS ON CREDIT GROWTH, IS SHOWN IN RIGHT-HAND COLUMN OF TABLE BELOW. CREDIT EXPANSION IS EXPECTED TO ACCELERATE SLIGHTLY DURING THE APRIL-JUNE QUARTER, RISING BY AROUND 9 PERCENT ON YEAR-OVER-YEAR COMPARISON.

CITY BANK LENDING LIMITS:

-	INCREASE IN LIMIT	OUTSTANDING LOANS AND
-	PERCENT	DISCOUNTS, AT END OF
-	CHANGE FR. QUARTER, PCT CHANGE	
-	IN BIL YEN	PRIOR YR. FROM PRIOR YEAR (NOTE)

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1977:	-		
JULY-SEP	1,129	MIN 13.1	8.6
OCT-DEC	1,685	7.8	8.5
1978:	-		
JAN-MAR	1,216	6.5	8.7
APR-JUNE	1,052	12.9	9.0

NOTE: TOTAL LOANS AND DISCOUNTS BY 13 CITY BANKS, INCLUDING SMALL AMOUNTS OF FOREIGN CURRENCY LOANS NOT INCLUDED IN LENDING LIMITS.

8. FOREIGN YEN BOND ISSUES IN JAPAN IN JUNE ARE EXPECTED TO AMOUNT TO 105 BIL YEN, MAKING THE THIRD STRAIGHT MONTH IN WHICH YEN BOND ISSUES HAVE TOTALED 100 BIL YEN APPROXIMATELY (\$445 MIL EQUIVALENT AT 225 YEN PER DOLLAR RATE). NIHON KEIZAI DATED MARCH 29 REPORTED THAT THE FOLLOWING FIVE YEN BOND ISSUES (PUBLIC PLACEMENTS) ARE SCHEDULED FOR JUNE: MEXICAN GOVT (30 BIL YEN); ITALIAN NATIONAL ELECTRIC POWER CORP (30 BIL YEN); FRENCH FOREIGN TRADE BANK (30 BIL YEN); CITY OF STOCKHOLM (10 BIL YEN); FINNISH INDUSTRIAL FUND (5 BIL YEN). THE PRESS REPORT ALSO SUGGESTS THAT THE WORLD BANK PLANS TO ISSUE YEN BONDS AMOUNTING TO 75 TO 100 BIL YEN IN JULY.

9. SINCE PREPARATION OF THE FOREGOING, THE YEN HAS RISEN

TO THE 220.70 LEVEL, BEFORE CLOSING AT 221.60. MANSFIELD

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